After Your Foreclosure

Millions lost their homes to foreclosure during the economic downturn of the late 2000s.

© ADOBE STOCK

Then those rates stabilized until 2021-22 when a pandemic-based moratorium on foreclosures was lifted. ATTOM, a real estate data company, reported a total of 100,546 U.S. foreclosure filings in the third quarter of 2023, including bank repossessions, defaults and auction. That was up 3% from the second quarter and 9% from the year before.

States with the greatest annual increases were North Carolina (which rose 53% in the third quarter) then Louisiana (47%), Pennsylvania (24%), Alabama (18%) and Nevada (16%). There are many challenges associated with this unfortunate turn of events, but the good news is, a foreclosure doesn't mean your homeownership chances have ended. Here's how to start over:

ASSESSING YOUR FINANCES

Once the foreclosure is complete, take an in-depth look at your financial health. Focus on income, debt and regular expenses in order to get a clear idea of what you can afford moving forward. With these numbers in hand, decide on your goals. Have you maximized all of your possible income potential? Assess your savings, making sure you are prepared for retirement or contingencies in the meantime. Most experts recommend that you have a couple of months' worth of savings in case of job loss. Diversify your investments, so that you're better able to weather market changes.

REBUILDING YOUR CREDIT

Focus on excess spending, and explore ways to lower your debt and the interest you pay. Your debt-to-income ratio will have a direct impact on buying power next time. Your credit score will obviously be negatively impacted by a foreclosure, so the more you can do to lower your overall debt, the sooner those numbers will improve. Pay your bills on time, every time, and stay on top of your credit report. If updates or corrections need to be made, be prepared to vigorously pursue those changes. Finally, remain patient. Improving any credit score takes time.

GATHERING NEEDED RESOURCES

Save, save, save. The larger your down payment, the lower your interest rate, and thus the less you'll have to pay. You also won't be subject to private mortgage insurance, which can significantly add to your monthly note. If you end up having difficulty securing a conventional mortgage because of your difficult credit journey, consider applying for government-backed loans from the Veteran's Administration or FHA. They'll have lower credit score requirements, making qualifying a lot easier. For instance, FHA loans would traditionally require a credit score of 580, and a 35% down payment. FHA only asks for a score of 500 if you make a higher down payment. The debt-to-income ratio for approval is not more than 43%, with a steady employment history and regular income.

GETTING STARTED

Once you've repaired your credit and built up a comfortable down-payment nest egg, contact a qualified real estate agent. They can help smooth the way for your house hunt by pairing you with a property that matches your budget and your needs, while taking into account your credit journey. With time and effort, you'll recover from foreclosure and own again. Practice patience and persistence.

HOMEWISE

Real Estate Tips and Advice

© ADOBE STOCK

After Your Foreclosure

Millions lost their homes to foreclosure during the economic downturn of the late 2000s.

Then those rates stabilized until 2021-22 when a pandemic-based moratorium on foreclosures was lifted. ATTOM, a real estate data company, reported a total of 100,546 U.S. foreclosure filings in the third quarter of 2023, including bank repossessions, defaults and auction. That was up 3% from the second quarter and 9% from the year before.

States with the greatest annual increases were North Carolina (which rose 53% in the third quarter) then Louisiana (47%), Pennsylvania (24%), Alabama (18%) and Nevada (16%). There are many challenges associated with this unfortunate turn of events, but the good news is, a foreclosure doesn't mean your homeownership chances have ended. Here's how to start over:

ASSESSING YOUR FINANCES

Once the foreclosure is complete, take an in-depth look at your financial health. Focus on income, debt and regular expenses in order to get a clear idea of what you can afford moving forward. With these numbers in hand, decide on your goals. Have you maximized all of your possible income potential? Assess your savings, making sure you are prepared for retirement or contingencies in the meantime. Most experts recommend that you have a couple of months' worth of savings in case of job loss. Diversify your investments, so that you're better able to weather market changes.

REBUILDING YOUR CREDIT

Focus on excess spending, and explore ways to lower your debt and the interest you pay. Your debt-to-income ratio will have a direct impact on buying power next time. Your credit score will obviously be negatively impacted by a foreclosure, so the more you can do to lower your overall debt, the sooner those numbers will improve. Pay your bills on time, every time, and stay on top of your credit report. If updates or corrections need to be made, be prepared to vigorously pursue those changes. Finally, remain patient. Improving any credit score takes time.

GATHERING NEEDED RESOURCES

Save, save, save. The larger your down payment, the lower your interest rate, and thus the less you'll have to pay. You also won't be subject to private mortgage insurance, which can significantly add to your monthly note. If you end up having difficulty securing a conventional mortgage because of your difficult credit journey, consider applying for government-backed loans from the Veteran's Administration or FHA. They'll have lower credit score requirements, making qualifying a lot easier. For instance, FHA loans would traditionally require a credit score of 580, and a 35% down payment. FHA only asks for a score of 500 if you make a higher down payment. The debt-to-income ratio for approval is not more than 43%, with a steady employment history and regular income.

GETTING STARTED

Once you've repaired your credit and built up a comfortable down-payment nest egg, contact a qualified real estate agent. They can help smooth the way for your house hunt by pairing you with a property that matches your budget and your needs, while taking into account your credit journey. With time and effort, you'll recover from foreclosure and own again. Practice patience and persistence.

REAL ESTATE 101

Why Choosing a Realtor Is So Smart

Not all real estate agents are alike. Realtors are part of a licensed sales force that belongs to the National Association of Realtors, the largest U.S. trade group. They must adhere to a strict code of ethics with specific requirements for conducting property transactions.

HOMEWISE GLOSSARY

Plat: a map or chart of a lot, subdivision or community drawn by a surveyor showing boundary lines, buildings, improvements and easements. SOURCE: Illinois Real Estate Lawyers Association